1995 Annual Report

DANOIL ENERGY LTD.

Corporate Mission Statement

"To deliver to our shareholders ever increasing values in their shares through per share increases in cash flow, asset value, rate of return, earnings and market price."

Corporate Profile

Danoil was established in 1985 to manage oil and gas production funds. Since this time, Danoil has been actively involved in the oil and gas production business and has grown primarily as a result of acquisitions. In September 1994, Danoil amalgamated with its wholly owned subsidiary Argyll Resources Ltd. and completed the reverse takeover of Manchester Resources Corporation in August 1995. Danoil's shares became publicly traded on The Alberta Stock Exchange on September 15, 1995.

Danoil's operations are primarily in central Alberta and western Saskatchewan. On a boe basis, 92% of Danoil's reserves are comprised of oil and ngl's. Danoil operates over 89% of its production while 90% of the Company's reserves are in the proven category.

Danoil utilizes a focused and integrated strategy beginning with selective property identification and acquisition where operatorship is available, followed by exploitation projects such as 3-D seismic, water flooding, and infill drilling to increase the value of the reserves and accelerate the generation of cash flow. As a result of this strategy, the Company's average acquisition, finding and development cost was $1.88 per boe at August 31, 1995.

Message to the Shareholders

Danoil had an active and very successful year in fiscal 1995, highlighted by the completion of our plan to become a publicly traded corporation. During the year, we completed the amalgamation with Argyll Resources Ltd., issued our first public prospectus to become a reporting issuer in Alberta, Saskatchewan and Ontario, and, completed the reverse takeover of Manchester Resources Corporation. While these activities were being undertaken corporately, we also successfully completed the drilling of 26 wells (22.2 net).

Danoil is more than an oil and gas company. We are a successful acquirer and seller of properties and companies and use this technique to further enhance the rate of return to our shareholders.

Our shareholders have been patient and loyal and we believe they have been well rewarded with consistent, well planned growth. Shareholders have participated in this growth from share values of less than 40¢ in September 1992 to $1.60 in today's market. We are confident that this momentum will continue for many years.

Danoil's strategy for growth in 1996 and beyond is to expand its productive base at a rate of 20% per year or greater by infill drilling, water-flood enhancement, horizontal wells and other exploitative technology on our existing production and landbase. We will further expand this production with exposure to new exploration areas in Central Alberta and Western Saskatchewan and we will utilize our experience in acquiring companies or properties which complement our existing assets.

As a result of these activities, we fully expect to double our market capitalization by next year and maintain this pace for several years to come.

Danoil has in excess of 100 drilling locations on its current land base, with expected payouts of six months to five years. These prospects will add considerably to production rates and producing reserves. They will be drilled in a planned and orderly manner to give maximum return to shareholders.

Danoil tends to be counter-cyclical in its activities and it is our plan to develop a presence in natural gas production after having sold most of our natural gas reserves in 1993 while gas prices were well beyond historical finding and development costs. This new emphasis will complement our light (30%), medium (30%), and heavy (35%) crude oil profile. As our production rate increases due to exploitation activities on our core properties, we expect operating costs together with general and administrative costs on a per barrel basis to be materially reduced. This reduction, coupled with increased reserves, by moving primary recovery percentages to secondary recovery percentages, will keep our finding and depletion costs well below industry averages.

Danoil believes its strategy is a formula for growth and success in the environment of the 1990's. We are confident that our staff and shareholders will be well rewarded for their faith and confidence in the future of the corporation and our vision of the future.

Robert G. Brawn
President and Chief Executive Officer

November 30, 1995
Calgary, Alberta

Management's Discussion and Analysis

Danoil's fiscal 1995 results were characterized by many positive developments.

Oil and Gas Revenues

Danoil's oil and natural gas revenues (after royalties) increased from $9,098,231 in fiscal 1994 to $13,530,665 in fiscal 1995, an increase of 48%. Cash flow from operations rose from $2,373,672 to $4,457,370, up 88%. Oil and natural gas production was 25% higher, averaging 708,465 barrels of oil equivalent (boe) in fiscal 1995 compared to 568,305 boe the previous year.

Pricing and Hedging

During 1995, the Company produced 708,000 boe at an average price of $19.11 (after royalties). This compares favorably with the 1994 price of $15.69 and represents both an improved market price and hedging activities entered into during the year. The Company presently has sold forward 26,000 barrels of oil each month until March 31, 1997 at an average price of Canadian $25.17 per barrel. In addition, the Company sold forward 389,200 barrels of oil for $6,220,000 to be delivered at 400 barrels per day for 32 months, starting September 1, 1995.

Royalties

Royalty expense increased to $1,512,995 in 1995 compared to $686,461 in 1994. In 1995, royalties were 10% of gross revenues compared to 7% in 1994. This higher rate of royalties is attributable to increased production rates and better quality production, as well as increased sales prices for our oil. Royalties payable to the province of Alberta are reduced through the Alberta Royalty Tax Credit (ARTC) program. Danoil's production is primarily in Saskatchewan but it does receive credits of $107,790 compared to 1994 credits of $233,770. On a boe basis, Danoil's royalty payments for 1996 were $2.13 compared to $1.20 in 1994.

Operating Costs

Operating expenses increased 41% which compares favorably to the 48% growth in gross revenues. Operating expenses were 51% of revenues in 1995 versus 56% in 1994, down 5%. On a boe basis, operating expenses were $10.85 in 1995 and $9.61 in 1994. Increasing production rates per well in 1996 will reduce the expenses per boe.

General and Administrative Expenses

Danoil's general and administrative expenses increased to $1,352,489 in 1995 compared to $961,419 in 1994, up 40% mainly due to personnel costs related to higher production levels, administrative costs associated with our expanded drilling program, and reduced overhead recoveries due to increasing our working interests in core properties. General and administrative expenses averaged $1.91 per boe of production in 1995 compared to $1.69 per BOE of production in 1994. General and administrative expenses are recorded net of recoveries, which relate to exploration and development activities. Danoil capitalized $384,812 in interest attributable to the $8,500,000 drilling and acquisition program in fiscal 1995 compared to $5,977 of interest in 1994.

Depletion and Depreciation

Depletion and depreciation increased to $1,462,860 in 1995 compared to $819,755 in 1994. This increase was attributable mainly to higher production volumes and an increased cost base due to record capital expenditures for drilling and land purchases, while ultimate reserves are not yet recognized in our engineering evaluation. On a boe basis, depletion was $2.06 per barrel in 1995 versus $1.44 per barrel the prior year. The rate of depletion was 7.5% compared to 7.0% in 1994. These rates were conservatively calculated based on total capital employed for land, facilities, oil and natural gas properties and compare favorably to industry averages of $6.25 boe (1994).

Finding and Development Costs

Because of the method of acquisition, Danoil's finding and developing costs have always been very low. On the basis of proven and probable net reserves, Danoil had an August 31, 1994 cost of $1.19 per boe. With the greater emphasis on drilling and land purchases during 1995, this cost increased to $1.88 per boe.

Income Taxes and Deferred Taxes

At August 31, 1995, Danoil sold forward 389,200 barrels of oil forward for 32 months and received $6,220,000 in deferred revenue which is secured by the assignment of specific assets. For income tax purposes, this amount was taken into income and operational losses acquired with the shares of Argyll Resources Ltd. were used to shield this income from tax. Operational costs relating to these specific properties (over the next 32 months) will be available to use as an expense against resource income from other properties, thus effectively reducing the Company's tax rate. In addition, the income booked will not be subject to tax as taxes will have already been paid. In Danoil's method of accounting for the purchase of Argyll in 1994, Danoil did not give any credit for the acquisition of the losses used in the above transaction.

Additionally, Danoil has resource pools available to be used against future operational income, which in the opinion of management, will be adequate to shield approximately three years of net taxable income.

Cash Flow From Operations and Net Income

Cash flow from operations increased 88% in 1995 to $4,457,370 from $2,373,672 in 1994. Cash flow per share in 1995 was $0.33 compared to $0.18 in 1994, an 83% increase. Improved production volumes and prices are the main reasons for this increase.

Net earnings after a provision for deferred taxes were $1,903,595 in 1995 compared to $823,079 in 1994. This is a 131% increase in earnings. Earnings per share increased to $0.14 compared to $0.06 in 1994, a 133% improvement.

Capital Expenditures

Additions to property and equipment totalled a net $8,425,683 in 1995 compared to $747,197 in 1994. This increase of 1,127% is the result of drilling 26 wells and acquiring 11,720 net acres of undeveloped Crown land and land obtained from other operators and an additional 30,080 acres of farm-in lands.

Danoil's capital program was financed through a combination of forward oil sales, increased bank financing, the issuing of shares, and cash flow from operations.

As a result of these various sources of financing, as at August 31, 1995, Danoil's bank debt and future oil sale obligations related to long term obligations equates to 1.64 years of operational cash flow.

Financial Resources and Liquidity

The Company's ongoing capital program for fiscal 1996 can be funded through cash flow or with forward oil sales. It is the intention of the Company, to add capital through the purchase of assets using equity shares or a distribution of shares for cash, if the capital markets are favorable in 1996.

Environment

It is the policy of the Company as operator to use good oil field production practices and to strictly adhere to environmental policies and regulations. As an active oil industry participant, we endorse the industry policy of ensuring a friendly, clean, and safe workplace with clean water and clean air. These practices are followed in both our drilling and production activities.

Business Outlook

While prices have softened in the first months of fiscal 1996, Danoil's risk management activities have helped to hold prices firm and production volumes continue to increase. During the first quarter, four wells were drilled and all were successfully completed, three wells in Dodsland and one well in Leon Lake. Danoil has firm plans to drill at least an additional 46 wells (gross) to December 1996, with the required capital of approximately $4,900,000 coming from cash flow. Additionally, plant and equipment costs of approximately $2,000,000 will be financed from bank borrowings.

Management's Responsibility For Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles and the financial and operating information presented throughout this annual report is consistent with that which is shown in the financial statements. The integrity of data in these financial statements is the responsibility of management and, to this end, management maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to produce reliable accounting records.

External auditors appointed by the shareholders have conducted an independent examination of corporate and accounting records in order to express their opinion on the financial statements for the years ended August 31, 1995 and 1994. The Audit Committee, consisting of one internal director and two external directors have reviewed these statements with management and the auditors and has reported to the Board of Directors. The Board has approved the financial statements of Danoil which are contained in this annual report.

Robert R. Hobbs
Vice President, Finance

Calgary, Alberta
November 14, 1995

Auditors' Report

To the Shareholders of:

Danoil Energy Ltd. (formerly Manchester Resources Corporation - Note 1)

We have audited the consolidated balance sheets of Danoil Energy Ltd. as at August 31, 1995 and August 31, 1994 and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1995 and August 31, 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Davis, Daignault, Schick & Co
Chartered Accountants

Calgary, Alberta
October 31, 1995

Danoil Energy Ltd.
Consolidated Balance Sheets
August 31

	1995	1994
Assets		
Current		
Cash and short term investments	$ 160,430	$ 164,207
Accounts receivable	2,394,798	2,092,548
Forward oil sale receivable - Note 6	6,220,000	—
Inventory	463,343	298,175
Prepaid expenses	642,014	818,172
Deferred income taxes - Note 7	964,622	—
	10,845,207	3,373,102
Capital - Note 4	17,903,585	10,940,762
	$ 28,748,792	$ 14,313,864
Liabilities		
Current		
Accounts payable	$ 5,193,849	$ 3,028,368
Forward oil sale contract - Note 6	2,114,009	—
	7,307,858	3,028,368
Long-term		
Bank debt - Note 5	3,200,000	2,400,000
Forward oil sale contract - Note 6	4,105,991	—
	7,305,991	2,400,000
Deferred income taxes	3,267,024	895,904
Shareholders' Equity		
Share capital - Notes 8 and 1	7,682,070	6,168,346
Contributed surplus	889,282	889,282
Retained earnings	2,296,567	931,964
	10,867,919	7,989,592
	$ 28,748,792	$ 14,313,864

Approved by the Board

Director

Director

Danoil Energy Ltd.
Consolidated Statement of Income and Retained Earnings
For the years ended August 31

	1995	1994
Revenue		
Petroleum and natural gas sales	$ 15,043,660	$ 9,784,692
Less: Royalties	1,512,995	686,461
	13,530,665	9,098,231
Expenses		
Operating	7,693,026	5,464,386
Depletion and amortization	1,462,860	819,755
Administrative	1,352,489	961,419
Interest on long term debt - Note 4	–	293,104
	10,508,375	7,538,664
Income before income taxes	3,022,290	1,559,567
Provision for income taxes - Note 7		
Current	27,780	5,650
Deferred	1,061,005	730,838
	1,088,785	736,488
Net income for the year	1,933,505	823,079
Retained earnings, beginning of year	931,964	108,885
Repurchase of stock options - Note 10	(568,902)	–
Retained earnings, end of year	$ 2,296,567	$ 931,964
Earnings per share	$ 0.14	$ 0.06
Fully diluted earnings per share	$ 0.14	$ 0.06

DANOIL ENERGY LTD.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED AUGUST 31

	1995	1994
Cash was provided by (used for):		
Operating activities:		
Net income for the year	$ 1,933,505	$ 823,079
Items not requiring a current cash outlay		
Depletion and amortization	1,462,860	819,755
Deferred income taxes	1,061,005	730,838
Cash flow from operations:	4,457,370	2,373,672
Changes in non-cash working capital balances:		
Forward oil sale receivable	(6,220,000)	–
Accounts receivable	(302,250)	122,946
Inventory	(165,168)	(117,073)
Prepaid expenses	176,158	(321,180)
Accounts payable	2,165,481	937,713
	111,591	2,996,078
Investing activities:		
Investments	–	1,112,571
Acquisition of petroleum and natural gas properties	(8,425,683)	(747,197)
	(8,425,683)	365,374
Financing activities:		
Note payable	–	(5,423,283)
Proceeds of long-term debt	800,000	386,753
Proceeds of forward oil sale contract	6,220,000	–
Proceeds of share issue	1,859,217	1,169,200
Repurchase of stock options	(568,902)	–
	8,310,315	(3,867,330)
(Decrease) in cash and cash equivalents	(3,777)	(505,878)
Cash and cash equivalents, beginning of year	164,207	670,085
Cash and cash equivalents, end of year	$ 160,430	$ 164,207
Cash flow per share	$ 0.33	$ 0.18
Fully diluted cash flow per share	$ 0.32	$ 0.18

Danoil Energy Ltd.
Notes to the Financial Statements
August 31, 1995 and 1994

Note 1: Basis of presentation

On August 11, 1995 Danoil Energy Ltd. (Danoil) acquired control of Manchester Resources Corporation (Manchester) in a transaction characterized as a reverse takeover.

Control of Manchester was acquired as follows:

Manchester, a public company listed on the Alberta Stock Exchange, offered to exchange:

(a) 37.4039 Class A subordinate voting shares of Manchester for each Class A Danoil share, a total of 133,511,871 Manchester Class A shares;

(b) 37.4039 Class B Manchester shares for each Class B Danoil share, a total of 37,404 Class B Manchester shares; and

(c) 6.234 Series D1 Manchester preferred shares for each Series G1 preferred Danoil share, a total of 6,234,000 Series D1 Manchester preferred shares.

Upon completion of the exchange Danoil shareholders held 95% of the 140,731,020 Class A Manchester shares and 100% of the other classes of Manchester shares and Danoil became a wholly owned subsidiary of Manchester.

On September 1, 1995, Danoil Energy Ltd. and Manchester Resources Corporation were amalgamated and subsequently the Manchester shares were consolidated on a 10 for 1 basis. The amalgamated entity continues under the name of Danoil Energy Ltd.

The combination was accounted for using the purchase method, with the cost of the purchased assets determined by the fair value of Manchester's net assets detailed as follows:

Working capital (deficiency)	$ (55,646)
Petroleum and natural gas properties	1,409,664
Value reflected in share capital	$1,354,018

Note 2: Summary of significant accounting and reporting policies

The financial statements have been prepared in accordance with generally accepted accounting principles and reflect the following policies:

(a) Basis of consolidation
The financial statements include the accounts of the company and wholly owned subsidiaries.

(b) Petroleum and natural gas properties

The company follows the full cost method of accounting for oil and gas operations as described in the Full Cost Accounting Guideline issued by the Canadian Institute of Chartered Accountants. Accordingly, all exploration and development expenditures, net of government grants, are capitalized in one cost centre, representing activity in Canada. Such expenditures include land, acquisition costs, geological and geophysical expenses, carrying charges of nonproductive properties, costs of drilling both productive and nonproductive wells, gathering and production facilities, and financing and administrative costs directly related to capital projects. Proceeds from dispositions of oil and gas properties are recorded as reductions of capitalized costs, unless the amortization and depletion rate would change by a factor of 20% or more, whereupon gains or losses are recognized in income.

Costs accumulated, including provision for necessary future development expenditures, are depleted using the unit of production method based upon estimated proved reserves before provision for royalties, with gas converted to equivalent barrels of oil on an energy equivalent basis.

All unamortized capitalized costs are subject to a year end ceiling test. Capitalized costs are limited to the undiscounted estimate of future net revenues from production of proved reserves of oil and gas, plus the lower of cost or estimated fair value of unproved properties, after consideration of interest, administrative costs, and income taxes. Values for the reserves are calculated using year end prices.

Amortization for non-resource equipment is provided using the declining balance method at rates ranging from 20% to 30%.

(c) Joint venture accounting

A significant portion of the company's activities in natural resources is conducted jointly with other companies. These financial statements reflect only the company's proportionate interest in such activities.

(d) Prepaid forward sale contracts

Payments received under forward sale contracts for oil and gas which is not delivered are deferred and are recognized as revenue when deliveries are made based on the contract price per unit of volume.

(e) Financial instruments

The company has entered into various contracts to reduce its exposure to price declines and currency rate fluctuations on a portion of its oil production. Gains or losses related to these contracts are recorded as adjustments to revenue in the period of realization.

(f) Per share statistics

Basic earnings per share amounts have been calculated using the weighted average number of common shares outstanding during the year. Cash flow per share has been calculated based on the weighted average number of shares outstanding and net income for the year plus items not requiring a current cash outlay, being depletion and amortization, deferred income taxes and minority interest.

Fully diluted earning per share reflects the dilutive effect of the exercise of the options outstanding at the year end and the ultimate conversion of the Class B and Class D1 preferred shares.

As a result of the reverse takeover of Manchester Resources Corporation. (Manchester) (see Note 1) per share amounts are calculated using the weighted average of the number of consolidated shares issued by Manchester to Danoil Energy Ltd. (Danoil) up to the takeover date (August 11, 1995) and the actual number of Manchester shares outstanding for the remainder of the year.

The comparative per share amounts are calculated by dividing the 1994 earnings and cash flow of Danoil by the number of shares issued by Manchester in the reverse takeover transaction.

Note 3: Acquisitions

On August 31, 1994 the Company acquired all of the issued and outstanding shares of Argyll Resources Ltd. in exchange for 1,000,000 Series G.1 preferred shares. The shares were acquired from a related party and, therefore, the acquisition was accounted for at the carrying value of the items involved:

Working capital	$ 80,831
Oil and gas properties	491,835
Net assets acquired	$ 572,666

On September 1, 1994, Danoil Energy Ltd. and Argyll Resources Ltd. were amalgamated. As a result of the amalgamation the company recognized tax benefits relating to $6,400,000 of Argyll losses carried forward. Tax benefits on these amounts had not been previously recognized.

Note 4: Capital assets

	1995		
	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 21,717,248	$ 3,984,930	$ 17,732,318
Other	293,437	122,170	171,267
	$ 22,010,685	$ 4,107,100	$ 17,903,585

	1994		
	Cost	Accumulated Depletion and Amortization	Net Book Value
Petroleum and natural gas properties and equipment	$ 13,347,306	$ 2,562,269	$ 10,785,037
Other	230,895	75,170	155,725
	$ 13,578,201	$ 2,637,439	$ 10,940,762

During the year, interest charges on long-term bank debt of $384,812 (1994 - $5,977) relating to acquisition and development activities were capitalized.

Petroleum and natural gas properties with a net book value of $907,614 (1994 - $981,735) have no cost base for income tax purposes.

Management has estimated the salvage value of petroleum equipment to be in excess of the cost of abandoning the properties. Accordingly, no liability has been recorded for future site restoration costs.

Note 5: Bank debt

	1995	1994
Revolving production loan The revolving production loan bears interest at bank prime plus 1% and is secured by a fixed and floating charge debenture in the amount of $8,000,000, a general security agreement over all present and future assets except for those assets which are specifically assigned to the debenture which provides security for the forward oil sale (Note 6). The maximum amount of borrowings under this loan facility is $4,000,000.	$ 3,200,000	$ 2,400,000

Note 6: Liability under forward oil sale contract

On August 31, 1995 the Company entered into a prepaid contract for the future delivery of oil over a thirty-two month period commencing September 1, 1995.

Under the terms of the contract the Company received $6,220,000 and is required to deliver 389,200 barrels of oil in quantities varying between 11,200 and 12,400 barrels per month as indicated:

	Oil in Barrels	Amortized Principle Requirements
1996	146,400	$ 2,114,009
1997	146,000	2,372,052
1998	96,800	1,733,939
	389,200	$ 6,220,000

The Company's obligation under this contract is secured by a demand debenture in the amount of $25,000,000 over those properties from which production is specifically dedicated to this contract.

Note 7: Income taxes

The provision for income tax differs from that which would be obtained by applying Canadian statutory rates as a result of the following:

	1995	1994
Income before income taxes	$ 3,022,290	$ 1,559,567
Combined federal and provincial statutory tax rate	45.63%	45.63%
Expected income tax provision	1,379,071	711,630
Increase (decrease) in totals resulting from:		
Prepaid contract revenue and partnership income for tax purposes in excess of book income	2,729,257	121,787
Losses carried forward acquired on amalgamation with Argyll Resources Ltd. utilized in current year	(2,959,589)	–
Resources deductions for tax purposes in excess of book deductions	(33,825)	(110,892)
Other	(26,129)	13,963
Total income taxes	$ 1,088,785	$ 736,488

The Company elected to include the full amount of the prepaid forward oil contract ($6,220,000) in 1995 taxable income in order to utilize income tax losses carried forward. This will result in reductions of future taxable income as follows:

	Reduction	Tax Benefit
1996	$ 2,114,009	$ 964,622
1997	2,372,052	1,082,367
1998	1,733,939	791,196
	$ 6,220,000	$2,838,185

Note 8: Share capital

(a) Authorized:

Class A (subordinate voting) shares: unlimited number

Class B shares: unlimited number
Each Class B share entitles the holder thereof who is present in person or by proxy at any meeting of shareholders of the Corporation to a number of votes equal to one times the number determined by dividing the total of all shares represented and voted at such meeting by the total of all Class B shares represented and voted at such meeting. In the event that the foregoing determination results in a fraction, then the determination shall be rounded off to the next highest whole number.

Class C preferred shares issuable in one or more series: unlimited number
Class D preferred shares issuable in one or more series: unlimited number
Series D.1 non-voting cumulative, redeemable, convertible 5% preferred shares: 623,400

(b) Issued:

On September 1, 1995 the shares were consolidated on a 10 for 1 basis and designated as Danoil Energy Ltd. shares. The share denominations above reflect the number of shares outstanding after giving effect to the 10 for 1 consolidation

Share transactions of Manchester Resources Corporation during the year:

	Shares	Amount
Class A (subordinate voting) shares		
Balance beginning of year	721,915	$ 1,354,018
Issued to Danoil Energy Ltd.shareholders under reverse takeover transaction (Note 1)	13,351,192	5,755,376
Balance at end of year	14,073,107	7,109,394
Class B shares		
Issued to Danoil Energy Ltd. shareholders under reverse takeover transaction (Note 1)	3,740	10
Series D.1 preferred shares		
Issued to Danoil Energy Ltd. shareholders under reverse takeover transaction (Note 1)	623,400	572,666
Total		$ 7,682,070

(c) As indicated in Note 1, Danoil entered into a reverse takeover of Manchester Resources Corporation on August 11, 1995. The following page summarizes the share transactions of Danoil up to the takeover date:

	1995		1994	
	Shares	Amount	Shares	Amount
Class A (subordinate voting) shares				
Balance beginning of year	3,158,797	$ 5,014,309	3,158,797	$ 5,014,309
Share options exercised	97,742	17,823	–	–
Conversion of D.3 preferred shares	169,316	767,000	–	–
Issued flow through shares	143,610	411,807	–	–
Share issue costs		(455,563)		(185,639)
Balance at August 11, 1995 Subsequently cancelled	3,569,465	5,755,376	3,158,797	4,828,670
Class B shares				
Balance at August 11, 1995 Subsequently cancelled	1,000	10	1,000	10
Series D.3 preferred shares				
Balance beginning of year	7,670	767,000	7,670	767,000
Conversion to Class A common	(7,670)	(767,000)	–	–
Balance at August 11, 1995	–	–	7,670	767,000
Series G.1 preferred shares				
Balance at August 11, 1995 subsequently cancelled	1,000,000	572,666	1,000,000	572,666
Total		$ 6,328,052		$ 6,168,346

The shares of Danoil were cancelled on the amalgamation of Manchester and Danoil.

(d) Conversion rights

i) Each Class B share is convertible into one Class A (subordinate voting) share.

ii) The Series D.1 shares are redeemable at $1.6061 per share and are convertible to Class A (subordinate voting) shares at a ratio of one Series D.1 share for one Class A (subordinate voting) share. Each issued and fully paid Series D.1 share may be converted at any time commencing September 1, 1995 and ending December 31, 1999.

(e) Stock options

During 1993 the Company has outstanding options allowing the purchase of 134,654 Class A (subordinate voting) shares at a price of $1.20. These options are exercisable up to August 31, 1998 at which date all unexercised options will expire.

Note 9: Lease commitments

The company's total obligations, under operating leases for occupied premises and equipment, exclusive of realty taxes and other occupancy charges, are as follows:

1996	$ 69,946
1997	70,052
1998	70,052
1999	70,052
2000	71,845
2001	39,016

Note 10: Related party transactions

During the year, the company contracted with related companies for land and consulting services amounting to $435,963 (1994 -$332,433).

The Company contracted with a related company for oil well services at normal market terms amounting to $290,968 (1994 - $212,328).

The company repurchased stock options from the president of the Company and two others providing services to the company during the year for a total of $568,500.

Note 11: Comparative figures

Certain 1994 comparative figures have been reclassified in order to conform with the financial statement presentation adopted for 1995.

Corporate Information

Officers and Directors

Robert G. Brawn
President, Chief Executive Officer
and Director
Calgary, Alberta

Robert R. Hobbs
Vice President, Finance and Director
Calgary, Alberta

Wayne S. Wadley
Vice President, Operations
Calgary, Alberta

Reginald F. Whyte
Vice President, Land
Calgary, Alberta

Gregory C. Collver
Director
Calgary, Alberta

Frank W. King
Director
Calgary, Alberta

Bankers

Alberta Treasury Branches
Calgary, Alberta

Auditors

Davis, Daignault, Schick & Co.
Chartered Accountants
Calgary, Alberta

Legal Counsel

Gregory C. Collver & Paul D. Trotter
Barristers and Solicitors
Calgary, Alberta

Engineers

Sproule Associates Limited
Calgary, Alberta

Stock Exchange

The Alberta Stock Exchange
"DAN.A"

Annual General Meeting

The Annual General Meeting of Shareholders will be held on January 17, 1996 at 3:30 p.m. (Local Time) at the Calgary Petroleum Club, 319 - 5th Avenue S.W., Calgary, Alberta.

Corporate Offices

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